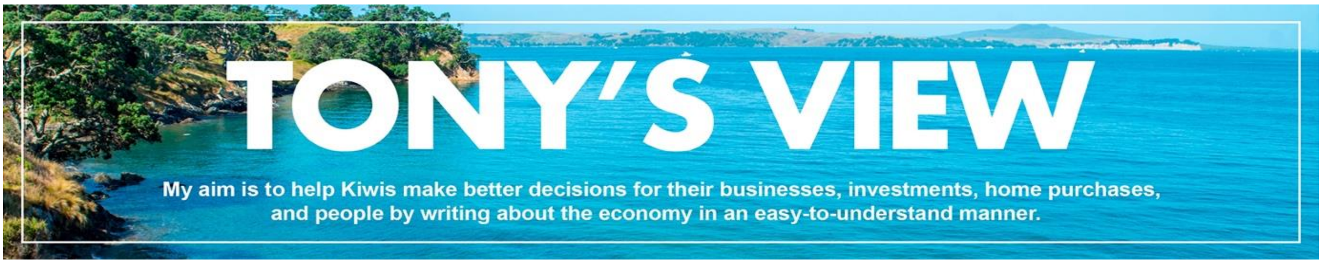

Input to your Strategy for Adapting to Challenges

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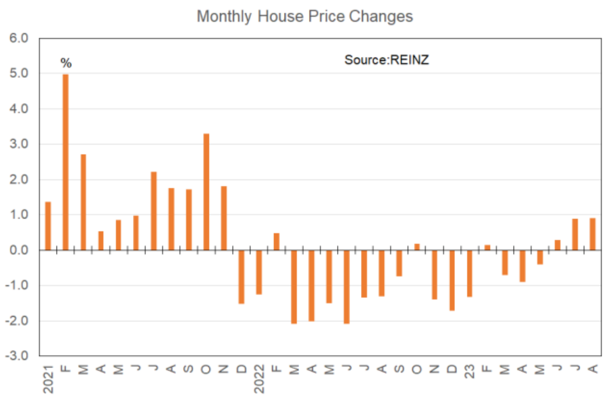
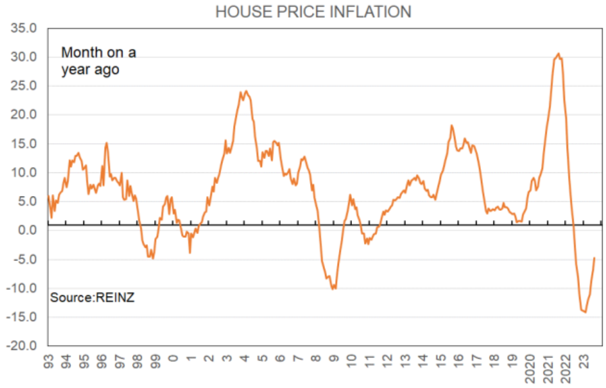
House Prices on Track for 5% Gain

REINZ this week released their monthly data on the state of the real estate market in New Zealand giving the most up to date set of statistics regarding sales and price moves. Other data providers usually smooth their numbers over three months and tend to miss turning points in the cycle.

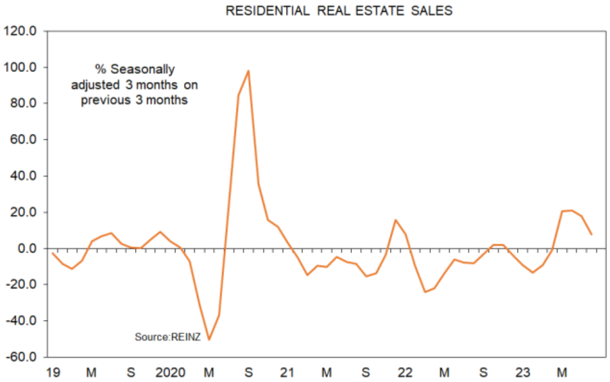
On average around the country house prices rose by 0.9% in August after gaining 0.9% in July and 0.3% in June.



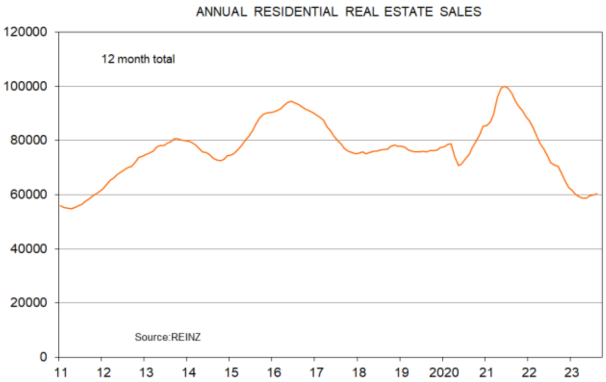
Prices are now 2.1% above their lows. Auckland prices have so far this cycle risen 3.1% while the rest of the country has gained on average 1.4%. Wellington is ahead 3.5% and Canterbury 3.0%.



Are sales also rising? Yes. In rough seasonally adjusted terms sales have increased 8% in the three months to August and about 20% in the three months to May.



Sales are starting to recover from a low level of 58,600 in the year to April to now 60,300.



Why have sales and prices risen? See last week's Tony's View where I ran through a long list of reasons driving first home buyers into the market.

1. Lower prices attracting buyers
2. Bigger deposits
3. High job security
4. Strong wages growth
5. Looser credit rules
6. Rising rents
7. A record migration boom
8. Temporary aversion to new builds
9. Listings availability
10. Beating investors to the punch
11. Peak mortgage rates

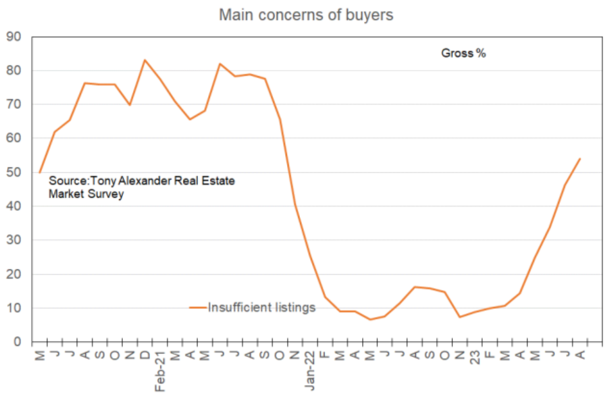
Will activity levels and prices continue to rise? Yes.

At the moment I suspect the young buyers are increasingly feeling that time is no longer on their side. If there is a change in major party leading the country from October 14 then we can anticipate investors returning – though this will probably take a while because full deductibility of interest expenses will not return until 2026.

Also, there is now likely to be rapidly rising awareness of the migration boom, and this can do nothing else than place extra pressure on the housing market – first via competition for rentals, second via rents, third via prices are renters in a position to buy decide the time is now right to make a purchase.

I'd suggest also that people are beginning to feel that the stock of listings is not as generous as was

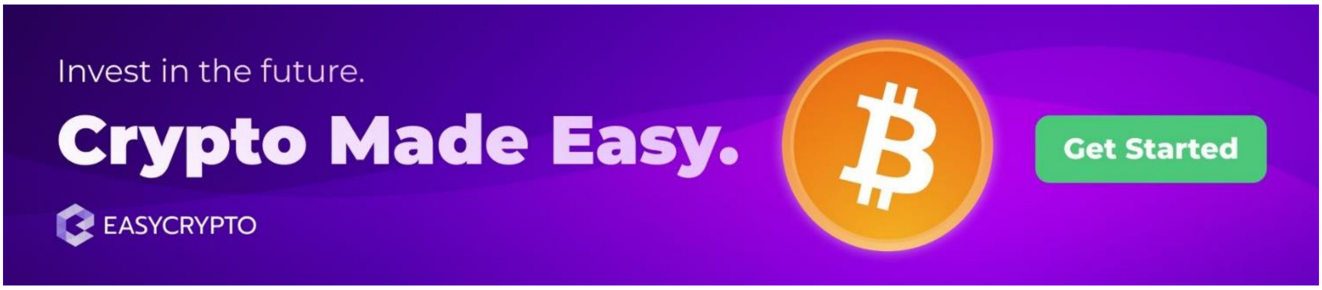
the case previously. In fact I can prove that statement with reference to the 54% of agents in my monthly survey now saying buyers are concerned about listings availability. Four months ago that proportion was only 14%. The change has been quite sudden and strong.



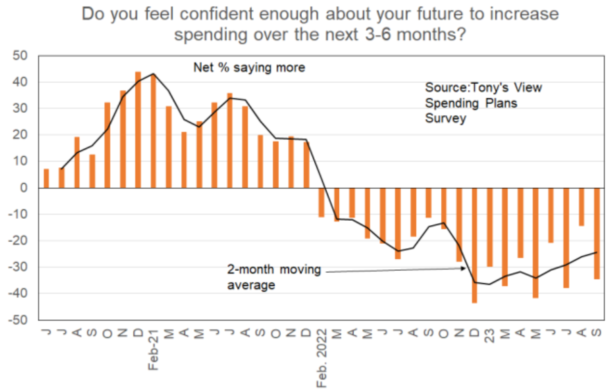
History tells us that when sales rise the end-month stock of listings trends down. Rising sales will show up as the dark blue line in the following graph going up.

What factors will contribute to house prices, after rising 5% this calendar year, rising 10% or so next and 15% or so over 2025?

1. High net inward migration boosting population growth.
2. Falling construction of new dwellings until a turnaround probably in 2025.



3. Falling mortgage interest rates through 2024 and 2025.
4. Rising rents
5. Falling listings contributing to rising FOMO and falling FOOP (fear of over-paying).
6. Rising tourism taking accommodation back to short-term holiday rentals like Airbnb.
7. Rising foreign student numbers boosting rental demand, especially in Auckland CBD.
8. Relaxation of investor tax rules if there is a change in government.



In case you missed it

On Monday I released my monthly Spending Plans Survey results. They show a net 34% of people still plan cutting back their spending over the next 3-6 months. This is bad news for retailers as people struggle with high interest rates, a high cost of living increase, and considerable uncertainty about where things are headed.

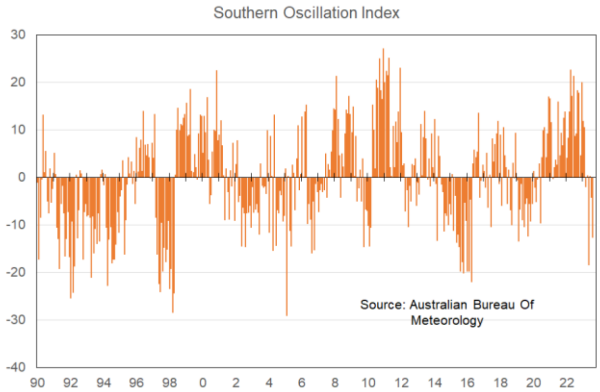
Spending intentions are weakest for eating out, furniture & appliances, and clothing & footwear. The only area where people "plan" spending more is groceries.

[TV-Spending-Plans-Survey-September-2023.pdf (tonyalexander.nz)]

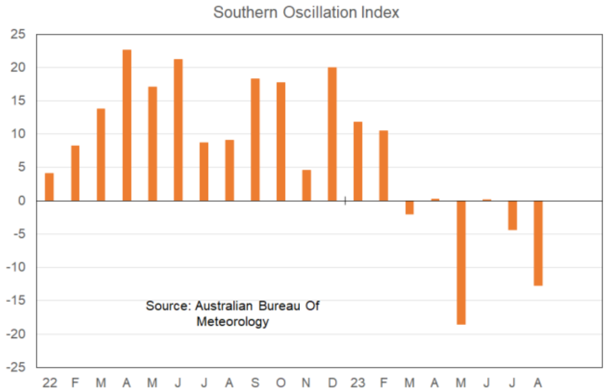
If I were a borrower, what would I do?

I am keeping an eye on the potential hit to farm incomes, spending in the regions, and the overall rate of growth and inflationary pressures in the economy from low commodity prices combined with a potential El Nino weather pattern. The risks surrounding this combination in my experience tend to get under-estimated (or ignored as Treasury have done in their pre-election forecasts).

An El Nino weather pattern brings drought for many parts of New Zealand particularly along the east coast. We measure this using the Southern Oscillation Index which is plotted here from 1990.



When the index is strongly negative, we are in El Nino and for the past six months the index has been either zero or negative.



Rising risks to the pace of economic growth imply an increasing chance of interest rates falling more quickly than most people are currently thinking will happen in 2024.

Therefore, if I were borrowing currently, I would feel more inclined to fix 12-18 months than has been the case so far this year.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.